

City of Minneapolis FY 2001 Recommended Budget Financial Management Policies

The City of Minneapolis Financial Management Policies provide a basic framework for the overall fiscal management of the City. The policies represent a foundation to address changing circumstances and conditions, and assist in the decision making process. The financial policies represent guidelines for evaluating both current activities and proposals for future programs.

The financial management policies reflect long-standing principles and practices which have enabled the City to maintain its financial stability. It is intended that the policies be reviewed annually so that the guidelines represent a realistic, current framework for public policy decisions. The last year the Mayor and City Council formally adopted a comprehensive list of the Financial Management Policies was 1988. Annually the City Council and Mayor have adopted policy resolutions during the budget adoption process which have modified and updated the Financial Management Policies. The Finance Department intends to conduct a comprehensive review of the City's financial management policies in 2001 and present to the Mayor and City Council for review and adoption.

The information that follows provides a summary of the current Financial Management Policies for the following areas:

- Operating and Capital Budget Policies
- Revenue Policies
- Reserve Policies
- Debt-Policies
- Capital Budget Policies
- Citizen Participation Policies
- Accounting Policies
- Investment Policies
- Development Finance Policies

Operating Budget Policies

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General and Special Revenue Funds. Capital projects funds adopt project-length budgets and budgetary control for debt service funds is achieved through general obligation bond indenture provisions.

The objective of the operating budget policies is to maintain adequate service levels at reasonable costs by following sound financial management practices. Each City department or division prepares its own budget for review by the Mayor to assist the Mayor in preparing a budget recommendation for the City Council.

Balanced Budget. The operating budget for the City shall be balanced. For each fund, ongoing costs are not to exceed ongoing revenues plus available fund balances used on accordance with reserve policies. It is a policy that the City shall not use debt or bond financing to fund current operating expenditures.

Performance Measurement. Performance measurement and productivity indicators shall be integrated into the annual budgeting process. All departments, boards, and agencies shall be reviewed annually by the appropriate City Council Committee for such performance criteria as program initiatives, compliance with policy direction, program effectiveness, and cost efficiency. During 1999, the Mayor and City Council adopted a performance measurement for the City of Minneapolis. Since adoption of this model, the City has been working to implement and improve its performance measurement efforts.

Budgetary Controls. The legal level of budgetary control is at the department level within a fund. The City Coordinator's Office and the Public Works Department are considered to be legal levels of budgetary control within a fund even though budgetary data is presented at the level of the Departments within the Coordinator's Office and the Divisions within Public Works Department. Budgetary amendments at the department/fund level must be approved by the City Council. Appropriations lapse at year-end.

Purchase orders, contracts, and other commitments are recorded as encumbrances, which reserve appropriation authority. This accounting practice is an extension of formal budgetary integration in the General and Special Revenue Funds. Encumbrances outstanding at year-end are reported as reservations of fund balance and do not represent generally accepted accounting principles (GAAP) expenditures.

The City maintains a budgetary control system to ensure adherence to the adopted budget and associated appropriations. Regular reports are provided through the City's financial system that compare actual revenues and expenditures to budgeted amounts.

Service Levels. The City shall attempt to maintain both essential service levels and constant or reduced burdens on taxpayers. Changes in service levels shall be governed by the following:

Budget Process -- The annual budget process is intended to weigh all competing requests for City resources, within expected fiscal constraints. Requests for new, ongoing programs made outside the annual budget process shall be discouraged.

Personnel Expenses -- To the extent feasible, any personnel cost reductions shall be achieved through attrition and, where necessary through bumping actions. Additional personnel should only be requested to meet program initiatives and policy directives, after service needs have been thoroughly documented or it is substantiated that the new employees will result in increased revenue or enhanced operating efficiencies.

Grant Funded Programs -- Programs financed with grant monies shall be budgeted in special revenue funds, and the service program shall be adjusted to reflect the level of available grant funding. In the event of reduced funding, City resources shall be substituted only after all program priorities are considered during the annual budget process.

Revenue Policies

The objective of the revenue policies is to ensure that funding for public programs is derived from a fair, equitable, and adequate resource base, while minimizing tax differential burdens.

Revenue Structure. It is a policy of the City to structure and maintain a stable revenue system to shelter programs and services from short-term fluctuations in any single revenue source.

Sources of Revenue. Services which have a city-wide benefit shall be financed with revenue sources which are generated from a broad base, such as property taxes and state aids. Services where the customer determines the use shall be financed with user fees, charges and assessments directly related to the level of service provided.

Tax Base Capacity. The objective of the City is to ensure that local general tax resources are not increased faster than the tax base capacity of the community. The Mayor and City Council approved a resolution, during the 2000 budget, that affirmed the City Council commitment to maintain a constant property tax rate for the City. The adoption of this resolution serves as a guideline for preparing financial forecast projections for tax revenue.

User Fees. The City maximizes the utilization of user charges in lieu of general revenue sources for services that can be identified and where the costs are directly related to the level of service. The City establishes user charges and fees at a level which reflects the costs of providing the service, to the extent legally allowable. Operating, direct, indirect, and

capital costs are considered in the charges. Full cost charges is imposed unless it is determined that policy and market factors require lower fees.

Cost of Service -- The City shall establish user charges and fees at a level which reflects the costs of providing the service, to the extent legally allowable. Operating, direct, and indirect and capital costs shall be considered in the charges. Full cost charges shall be imposed unless it is determined that policy and market factors require lower fees.

Policy and Market Considerations -- The city shall also consider policy objectives and market rates and charges levied by other public and private organizations for similar services when fees and charges are established.

Annual Review. The City shall review fees and charges annually, and will make appropriate modifications to ensure that charges grow at a rate which keeps pace with the cost of efficiently providing the service.

Non-Resident Charges. Where practical, user fees and other appropriate charges shall be levied for activities or facilities in which non-residents participate in order to relieve the burden on City residents.

Water and Sewer Fees. User charges for water and sewer shall be sufficient to finance all operating, capital, and debt service costs for these utilities. Rates will be set such that these enterprise funds are never in a cash deficit during the year.

Building and Code Enforcement. These activities shall be funded through a user charge in the form of building permits, inspections and plan review fees. These fees shall represent the full cost of the operation cost, including overhead expenses.

Convention Center. The Convention Center Facility should develop a profit and loss statement for each event. The Center shall be managed so that operating costs are financed through user charges to the greatest extent possible within the overall mission of the Convention Center.

Parking Fees. Hourly, daily, and monthly contract rates for City-owned parking facilities shall be adjusted at least annually to reflect market prices of privately owned parking facilities. Fee adjustments shall also be consider overall downtown objectives, such as

development incentives, space availability, business promotion, traffic control, and mass transit patronage.

Data Fees. Pursuant to the Minnesota Government Data Practices Act and unless otherwise provided for by Federal Law and State Statute or rule, fees for obtaining government data shall be recommended by departments based on the actual costs of providing such service. Fees shall not be charged for viewing of data only.

Internal Service Fees. When interdepartmental charges are used to finance internal enterprise functions, charges shall reflect full costs, including all indirect expenses.

License Fees. The City shall establish license fees at levels which reflect full administrative costs, to the extent legally allowable.

Fines. Levels of fines shall be requested according to various considerations, including legal guidelines, deterrent effect, administrative costs and revenue potential. Because the purpose of monetary penalties against those violating City ordinances is to deter continuing or future offenses, the City shall not request any increase in fine amounts with the singular purpose of revenue enhancement.

Dedicated Revenues. Except where required by law or generally accepted accounting principles (GAAP), no revenues shall be dedicated for specific purposes. All non-restricted revenues shall be deposited in the General Fund and appropriated by the annual budget process.

Private Revenues. All private money donated, contributed or lent to the City for operations, maintenance, purchase of equipment, supplies, land or capital facilities shall be subject to current grant solicitation and acceptance procedures and shall be deposited in the appropriate City fund and accounted for as public money through the City's budget process and accounting system.

Administrative Fees. An administrative fee shall be assessed on all General Fund supported capital projects to insure that overhead charges are properly allocated and that the General Fund is not required to subsidize infrastructure or economic development projects. The fee shall be calculated annually and shall be based on actual historic costs and expected future years expenses for all appropriate administrative costs not directly assessed to MCDA and Public Works projects.

Reserve Policies

The objective of the reserve policies is not to hold resources solely as a source of interest revenue, but rather to provide adequate resources for cash flow and contingency purposes, while maintaining reasonable tax rates.

Cash Flow and Contingency. The City shall maintain a minimum “base” unallocated fund balance of 10 percent of the General Fund budget to be used for cash flow purposes, unanticipated expenditures of a non-recurring nature, or to meet unexpected increases in service delivery costs. These funds will be used to avoid cash flow interruptions, generate interest income, avoid the needs for short-term borrowing, and assist in maintaining a triple-A bond rating.

In the event a balance larger than the “base” amount exists as a result of state or federal aid, salary settlements, or other unknowns provided for in the budget, the City shall decide whether to transfer cash to the Internal Service Funds of the City to help reduce the negative cash balances in these funds.

When financial stability is returned to the Internal Service Funds of the City, the City shall reevaluate the Cash Flow and Contingency policy statement. Specifically, future changes shall address the level of balance that may be maintained above the minimum “base”.

Appropriate operating contingency reserves shall be maintained in enterprise funds to provide for unanticipated expenditures of a non-recurring nature. Appropriate capital replacement reserves shall be maintained to fund emergency improvements relating to new regulations, standards, and capital repair and maintenance.

For all other funds, appropriate balances shall be maintained to reflect the nature of the accounts.

Use of Fund Balances. Available fund balances shall not be used for on-going operating expenditures, unless determination has been made that available balances are in excess of required guidelines and that plans have been established to address future operating budget shortfalls. Emphasis shall be placed on one-time uses which achieve future operating cost reductions.

Annual Review. An annual review of cash flow requirements and appropriate fund balances shall be undertaken to determine whether modifications are appropriate for the reserve policy.

Debt Policies

The objective of the Minneapolis debt management policies is to maintain the City's ability to incur present and future debt at minimal interest rates in amounts needed for infrastructure and economic development of the City without endangering the City's ability to finance essential City services.

In addition to these general policies, specific guidelines have been adopted by the City Council and Board of Estimate and Taxation to manage Minneapolis debt practices. The specific guidelines detailed criteria for approval and capacity measurement.

General Obligation Bonds, Property Tax Supported. The City utilizes general obligation, property tax supported bonding to finance only those capital improvements and long term assets which have been determined to be essential to the maintenance or development of the City.

Revenue Supported Bonds. The City utilizes tax increment supported bonds only where projects can be shown to be self-liquidating from tax increments arising in sufficient amounts or where secured guarantees are provided for potential shortfalls, and with appropriate timing to avoid the use of city-wide property tax revenues and where maximum allowable guarantees are obtained.

Special Obligation Revenue Bonds. Special obligation revenue bonds, those bonds for which the City incurs no financial or moral obligation, are issued only if the associated development projects can be shown to financially feasible and contributing substantially to the welfare and/or economic development of the City and its citizens.

Limitations on Issuance of Debt. It is a policy of the City to establish and maintain limitations on the issuance of new property tax base supported bonded indebtedness which will promote a balanced relationship between expenditures for debt service and current municipal costs, and assist in minimizing the overall property tax burden. The City limits the issuance of new bonded debt so as to maintain or make improvements in key financial trend lines over time.

Variable Rate Debt. The City may elect to issue bonds as variable rate instruments to provide flexibility and/or attempt to achieve interest savings.

Debt Management. City Financial Management Policies shall be designed to maintain a balanced relationship between debt service requirements and current operating costs, encourage growth of the tax

base, actively seek alternative funding sources, minimize interest costs and maximize investment returns.

Bond Term -- The City shall issue bonds with terms, no longer than the economic useful life of the project. For self-supporting bonds, maturities and associated debt service shall not exceed projected revenue streams.

Feasibility -- The City shall obtain secured guarantees for self-supporting and tax increment supported bonds to the extent possible. The City shall also obtain assurances of project viability and guarantees of completion prior to the issuance of bonds.

Capital Budget Policies

The objective of the capital budget policies is to ensure that the City of Minneapolis maintains its public infrastructure in the most cost-efficient manner.

Capital Improvement Program. The City prepares and adopts a five-year Capital Improvement Program (CIP) which details each capital project, the estimated cost and funding source. An adopted priority system is used to rank and recommend projects.

Operating Budget Impacts. Operating expenditures are to be programmed to include the cost of implementing the CIP and are to reflect estimates of all associated personnel expenses and operating costs attributable to the capital outlays.

Repair and Replacement. The City is to maintain its physical assets at a level adequate to protect the City's capital investments and minimize future maintenance and replacement costs. The capital budget is to provide for the adequate maintenance, repair and orderly replacement of the capital plant and equipment from current revenues where possible.

Citizen Participation Policies

The objective of the citizen participation policies is to help ensure the continued involvement of the Minneapolis citizens in order to enhance the City's ability to meet challenges of the future in a constructive and innovative manner. Minneapolis has long believed that its most important resource is an informed citizenry involved in the decision-making process. The City has maintained its fiscal strength through the commitment on the parts of citizens and government to managing the City's resources.

Financial Reports. Financial information shall be provided to citizens on the City budget and financial audits in a form that is more understandable to the public than line-item budgets and audited documents. An annual financial review shall be made available to interested parties and selected financial summary information shall be published through citizen guides.

Budget Input. Appropriate methods shall be used to ensure viable citizen input into the budgeting process. Informational hearings, citizen-based review committees (i.e., Capital Long-Range Improvement Committee) and other techniques shall be used to help ensure adequate input.

Citizen Access. All residents and businesses of the City of Minneapolis shall be afforded access to City budget information.

Accounting Policies

The objective of the accounting policies is to ensure that all financial transactions of the City of Minneapolis and its boards, commissions, and agencies are carried out according to the dictates of the City Charter, State Statutes, federal grant guidelines, and the principles of sound financial management.

Accounting Standards. The City shall establish and maintain accounting systems according to the generally accepted accounting principles and standards (GAAP) of the Government Finance Officers Association (GFOA) and the Governmental Accounting Standards Board (GASB). The central system shall be used for financial transactions of all City departments, boards, and independent agencies.

Annual Audit. An annual audit is performed by the State Auditor's Office which issues an official opinion on the annual financial statements, with a management letter detailing areas that need improvement, if required.

Disclosure and Monitoring. Full disclosure is provided in all financial statements and bond representations. Financial systems are maintained to monitor expenditures and revenues on a four-week period basis, with a thorough analysis and adjustment, if required, at mid-year.

GFOA Award. The City annually submits necessary documentation to obtain the Certificate of Excellence in Financial Reporting.

Investment Policies

The objective of the investment policies is to ensure that all revenues received by the City are promptly recorded and deposited in designated depositories, and if not immediately required for payments of obligations, are placed in authorized investments earning interest income for the City according to defined criteria.

Investment Objectives. The following objectives govern Minneapolis investments, as listed in order of importance:

Safety -- Safety of principal is the foremost objective of the City of Minneapolis. Each investment transaction shall seek to first ensure that capital losses are avoided, whether from securities defaults or erosion of market value.

Liquidity -- The cash position of the City of Minneapolis has peaks and valleys during the year which requires that a portion of the investment portfolio emphasize liquidity. The City of Minneapolis shall consider liquidity as a priority, while still recognizing the need to maximize yield.

Yield -- The investment portfolio of the City of Minneapolis shall be designed to attain a market-average rate of return through budgetary and economic cycles, taking into account the city's investment risk constraints, cash flow characteristics of the portfolio and prudent investment principles.

Local Considerations -- Subject to requirements of the above priority objectives, it is the policy of the City of Minneapolis to offer financial institutions within the City the opportunity to bid on investments. However, the City shall seek the best investment yield through a competitive process.

Maintaining the Public Trust - Because the investment portfolio is subject to public review and evaluation, the overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. Investment officials shall avoid any transaction that might impair public confidence in the City of Minneapolis' ability to govern effectively.

Types of Investments. The City of Minneapolis shall only invest in those instruments authorized within the City's Financial Management Policies, and/or Minnesota Statute, and/or Council resolution.

Diversification. It is the policy of the City of Minneapolis to diversify its investment portfolios. Assets held in the General Fund and other investment funds shall be diversified to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of securities. Diversification strategies shall be established, with a periodic review and revision, as appropriate.

Prudence. The "prudent person" standard shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and exercising due diligence shall be relieved of personal responsibility for and individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion, and appropriate action is taken to control adverse developments.

Internal Controls and Safekeeping. The City Finance Officer shall establish a system of internal controls, which shall be documented in writing. To protect against potential fraud and embezzlement, assets of the City of Minneapolis shall be secured through a third party custody and safekeeping procedures. Bearer instruments shall be held only through third party institutions. Investment officials shall be bonded to protect the public against possible embezzlement and malfeasance.

Development Finance Policies

The objective of the development finance policies is to provide for orderly public assistance of community development efforts in a manner which balances costs against benefits. In addition to these general policies, specific guidelines have been adopted by the City Council, Mayor, and Minneapolis Community Development Agency Board to manage specific development resources and programs. The City's Financial Management Policies outline general policy direction and are supportive of the specific guidelines for development finance.

To the greatest extent possible, all development activities shall be self-supporting so that impacts on the City's operating tax funds are minimized. Sufficient public and private resources shall be identified at the time a project is approved to ensure feasible completion and operation of the project. All development financing proposals shall be reviewed in order to certify that the proposed financial plan is reasonable, balanced, and the best deal possible to achieve City objectives, while adequately protecting overall city-wide financial interests.

City of Minneapolis FY 2001 Recommended Budget All Funds Summary

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equities, revenues and expenditures/expenses. Provided below is a listing of all City Funds.

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those that are required to be accounted for in another fund.

Enterprise Funds - The Enterprise Funds are used to account for those activities of the City which are financed and operated in a manner similar to private business enterprises where costs and expenses, including depreciation, are recovered principally through user charges. The City operates six enterprise funds, including the City's Community Development Agency (MCDA):

➤ ***Water Works Fund***

This fund is used to account for the operation, maintenance, and construction projects related to the water delivery system. This fund also accounts for the operations related to the billings for water, sewage, and solid waste fees.

➤ ***Sewer Rental Fund***

This fund is used to account for sewage fees collected from customers connected to the City's sewer system and for all expenses of operating this system. This fund also accounts for storm water management activities.

➤ ***Solid Waste and Recycling Fund***

This fund is used to account for the revenues and expenses for solid waste collection, disposal and recycling activities.

➤ ***Municipal Parking Fund***

This fund is used to account for the operation, maintenance, and construction of the City's parking facilities as well as on-street parking and the Municipal Impound Lot.

➤ ***River Terminal***

This fund is used to account for the operations of the public terminal facility located on the Mississippi River.

Internal Service Funds - Internal Service Funds are similar to Enterprise Funds in that they are used to account for those City services which are financed and operated in a manner similar to private business enterprises, except for in the case of Internal Service Funds, the customer is typically other City departments instead of the public. The City operates six Internal Service Funds:

➤ ***Engineering Materials and Supplies***

This fund is used to account for the operations of the City's asphalt plant and paving products laboratory. The paving products laboratory provides in-lab and on-site testing and soil boring services to ensure quality control of asphalt and soils for projects.

➤ ***Intergovernmental Services***

This fund is used to account for information technology services, central mailing and printing services, and the City's telecommunication operations.

➤ ***Lands and Buildings***

This fund is used to account for the physical management and maintenance of fire stations, police precinct buildings, the City of Minneapolis Public Service Center, and various other City office locations, except for the City Hall/County Court House building, which is accounted for in the Municipal Building Commission Special Revenue Fund.

➤ ***Permanent Improvement Equipment***

This fund is used to account for the ownership and operation of radio communications equipment and a fleet of motorized equipment and vehicles. The fund operates as a rental agent to various departments to support the construction and maintenance of city infrastructure, fire protection services, and police services.

➤ ***Public Works Stores***

This fund is used to account for the centralized procurement, warehousing, and distribution of stocked inventory items, and the purchase of special goods and services.

➤ ***Self-Insurance.***

This fund is used to account for employee medical, dental, and life insurance benefit programs and the programs' administrative costs. The fund also accounts for occupational health services, severance payments to employees who have retired or resigned and who meet minimum eligibility requirements, a tort liability program, and a workers' compensation program.

Special Revenue Fund - Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted by legal and regulatory provisions to finance specific activities. The City has eleven Special Revenue Funds:

- ***Arena Reserve Fund***
This fund is a holding fund for various finance plan revenues to be used for future cost relating to the acquisition and capital maintenance of the downtown sports, entertainment and health complex.
- ***Board of Estimate and Taxation Fund***
This fund is used to account for the operations of the Board of Estimate and Taxation which issues and sell bonds, and establishes the maximum levies for the City, its Boards and Commissions.
- ***Community Development Agency Fund***
This fund is used to account for the general fund and the special revenue fund activities of the Minneapolis Community Development Agency (MCDA), a component unit of the City of Minneapolis.
- ***Community Development Block Grant***
This fund is used to account for the federal grants received under the Federal Community Development Block grant provisions.
- ***Convention Center***
This fund is used to account for the ownership, maintenance, and operation of the Minneapolis Convention Center, and the proceeds of the local sales and use tax.
- ***Convention Facilities Reserve***
This fund is a holding fund for parking and sales tax revenues to be used for future capital maintenance needs of the existing Convention Center.
- ***Employee Retirement***
This fund is used to account for the tax levy proceeds and other sources of revenue for the Minneapolis Employee Retirement Fund (MERF), Minneapolis Fire Department Relief Association (MFDRA), and Minneapolis Police Relief Association (MPRA) retirement programs for some city employees.

➤ ***Grants - Federal***

This fund is used to account for all federal grants, except for the Community Development Block grant, which is accounted for in a separate fund.

➤ ***Grants - Other***

This fund is used to account for grants received from the State of Minnesota, Hennepin County, local government units, and private funds.

➤ ***Municipal Building Commission***

This fund is used to account for the cost of operating and maintaining the City Hall/County Court House building.

➤ ***Police***

This fund is used to account for the revenues and expenditures related to federal and state administrative forfeitures and the revenues and expenditures related to the regulation of lawful gambling in the City.

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources and expenditures applied to the construction of capital facilities and major purchased items for governmental fund types.

➤ ***Community Development Agency Capital Fund***

This fund is used to account for the capital project activities of the Minneapolis Community Development Agency (MCDA), a component unit of the City of Minneapolis.

➤ ***Municipal Building Commission (MBC) Capital Fund***

This fund is used to account for the capital project activities of the MBC, a component unit of the City of Minneapolis.

➤ ***Permanent Improvement Capital Fund***

This fund is used to account for capital acquisition, construction, and improvement projects including bridge construction, sidewalk construction, street construction, completion of the Minneapolis Convention Center, energy conservation projects, infrastructure projects, and many Information Technology System projects.

Debt Service Funds - The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt, principal, interest, and related costs. Included in the Debt Service Funds are:

- ***Community Development Agency Debt Service Fund***
This fund is used to account for the debt service activities of the MCDA, a component unit of the City of Minneapolis, and includes the Arena Acquisition Project (Target Center) Series A and B bonds, Tax Increment Bonds of 1990, debt of the Orpheum Theatre Project, and Tax Increment Revenue Notes.
- ***Development Debt Service Fund***
This fund is used to account for the debt of projects supported by property tax increments, transfers of sales tax revenues from the Convention Center Special Revenue Fund for related debt, and a State grant relating to the completion of the Convention Center.
- ***General Debt Service Fund***
This fund is used to account for General Obligation Bonds supported by a property tax levy, Park Diseased Tree debt, Management Information System debt supported by the City's General Fund, Great River Road Bonds, and Edison Hockey, Community Health, and Northern States Power (NSP) Revenue Notes.
- ***Special Assessment Debt Service Fund***
This fund is used to account for debt supported by special assessments with the exception of the Park Diseased Tree debt.

